

CITY OF ROCKFORD, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2013

- Prepared By -

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CITY OF ROCKFORD, IOWA

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CITY OF ROCKFORD, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Harry White	Mayor	January 2014
Scott Johnson	Mayor Pro tem	January 2016
Bruce Inman	Council Member	January 2014
Diane Marker	Council Member	January 2014
David Peterson	Council Member	January 2014
Alvin Marth	Council Member	January 2016
Ramona Reiter	Clerk/Treasurer	February 28, 2013
Pam Hopper	Clerk/Treasurer	Indefinite
Judith O'Donohoe	Attorney	Indefinite



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockford, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinion

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2012.

Qualified Opinions

In my opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Rockford as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockford's basic financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 24 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated January 28, 2014 on my consideration of the City of Rockford's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Rockford's internal control over financial reporting and compliance.



Charles City, Iowa
January 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Rockford provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

The City's total cash basis net position increased 50.0%, or approximately \$906,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$911,000 and the cash basis net position of the business type activities decreased approximately \$5,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system and the light plant. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue Funds, such as Road Use Tax and LOST-General. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds to provide separate information for the water, sewer rental and light plant funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$637,039 to \$1,547,725. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 44
Operating grants, contributions and restricted interest	98
Capital grants, contributions and restricted interest	193
General receipts:	
Property tax	202
Local option sales tax	88
Unrestricted interest on investments	1
Bond proceeds, net	893
Other general receipts	25
Total receipts	<u>\$ 1,544</u>
Disbursements:	
Public safety	\$ 24
Public works	181
Culture and recreation	78
Community and economic development	5
General government	115
Capital projects	223
Total disbursements	<u>\$ 626</u>
Change in cash basis net position before transfers	\$ 918
Transfers, net	<u>(7)</u>
Change in cash basis net position	\$ 911
Cash basis net position beginning of year	<u>637</u>
Cash basis net position end of year	<u>\$ 1,548</u>

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 156
Sewer rental	100
Electric	793
General receipts:	
Unrestricted interest on investments	9
Other general receipts	10
Total receipts	<u>\$ 1,068</u>
Disbursements:	
Water	\$ 174
Sewer rental	112
Electric	782
Other	12
Total disbursements	<u>\$ 1,080</u>
Change in cash basis net position before transfers	\$ (12)
Transfers, net	<u>7</u>
Change in cash basis net position	\$ (5)
Cash basis net position beginning of year	<u>1,179</u>
Cash basis net position end of year	<u>\$ 1,174</u>

The City's cash balance for business type activities decreased by approximately \$5,000 from the prior year, decreasing from \$1,179,166 to \$1,174,518. The analysis is shown above.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Rockford completed the year, its governmental funds reported a combined fund balance of \$1,547,725, an increase of approximately \$911,000 above last year's total of \$637,039. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$18,970 from the prior year to \$339,945.

The Special Revenue, Road Use Tax Fund cash balance decreased by \$52,031 to \$3,569 during the fiscal year. This decrease was attributable to street improvement projects during the year.

The Special Revenue, LOST-General Fund cash balance increased by \$82,434 to \$286,681 during the fiscal year.

The Capital Projects, East Main Bridge Project Fund cash balance increased \$348,571 from the prior year to \$421,818. This increase was due to bond proceeds issued during the year.

The Capital Projects, Water Main Project Fund cash balance increased \$378,191 to \$378,191 due to bond proceeds issued during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased by \$7,877 to \$231,826, due primarily to an increase in operating expenses.

The Enterprise, Sewer Rental Fund cash balance decreased by \$1,048 to \$345,507, due primarily to an increase in operating expenses.

The Enterprise, Electric Fund cash balance increased by \$11,981 to \$697,694, due to increased operating receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 14, 2013 and resulted in an increase in operating disbursements of \$890,000 due to capital projects. The City had sufficient cash balances to absorb these additional costs. The City exceeded the amounts budgeted in the public works and debt service functions.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$900,000 of bonds outstanding, compared to -0- last year as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June, 30	
	2013	2012
General obligation bonds	\$ 900	\$ -

Debt increased as a result of issuing general obligation bonds for the bridge/water system improvement projects.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$900,000 is significantly below its constitutional limit of \$1,500,337.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Rockford's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Pam Hopper, City Clerk, 206 West Main Street, Rockford, Iowa 50468.

Basic Financial Statements

CITY OF ROCKFORD, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		<u>Program Receipts</u>		
		<u>Operating</u>	<u>Grants,</u>	<u>Capital Grants,</u>
		<u>Charges</u>	<u>Contributions</u>	<u>Contributions</u>
		<u>for</u>	<u>and Restricted</u>	<u>and Restricted</u>
		<u>Service</u>	<u>Interest</u>	<u>Interest</u>
FUNCTIONS/PROGRAMS:	<u>Disbursements</u>			
Governmental activities:				
Public safety	\$ 23,686	\$ 60	\$ -	\$ -
Public works	181,142	33,824	82,359	-
Culture and recreation	78,348	8,631	15,551	-
Community and economic development	4,534	-	-	-
General government	115,186	1,167	-	18,501
Debt service	250	-	-	-
Capital projects	<u>223,163</u>	<u>-</u>	<u>-</u>	<u>174,717</u>
Total governmental activities	<u>\$ 626,309</u>	<u>\$ 43,682</u>	<u>\$ 97,910</u>	<u>\$ 193,218</u>
Business type activities:				
Water	\$ 173,482	\$ 155,960	\$ -	\$ -
Sewer rental	111,587	99,724	-	-
Electric	782,438	793,485	-	-
Other	<u>12,274</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$1,079,781</u>	<u>\$1,049,169</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u><u>\$1,706,090</u></u>	<u><u>\$1,092,851</u></u>	<u><u>\$ 97,910</u></u>	<u><u>\$ 193,218</u></u>

(continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental</u>	<u>Business Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (23,626)	\$ -	\$ (23,626)
(64,959)	-	(64,959)
(54,166)	-	(54,166)
(4,534)	-	(4,534)
(95,518)	-	(95,518)
(250)	-	(250)
<u>(48,446)</u>	<u>-</u>	<u>(48,446)</u>
 \$ (291,499)	 \$ -	 \$ (291,499)
 \$ -	 \$ (17,522)	 \$ (17,522)
-	(11,863)	(11,863)
-	11,047	11,047
<u>-</u>	<u>(12,274)</u>	<u>(12,274)</u>
 \$ -	 \$ (30,612)	 \$ (30,612)
<u>\$ (291,499)</u>	<u>\$ (30,612)</u>	<u>\$ (322,111)</u>

CITY OF ROCKFORD, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

General Receipts and Transfers:

- Property and other city tax levied for:
 - General purposes
 - Local option sales tax
- Unrestricted interest on investments
- Bond proceeds, net
- Miscellaneous
- Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position:

- Restricted:
 - Expendable:
 - Streets
 - Other purposes
- Unrestricted

Total cash basis net position

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 201,819	\$ -	\$ 201,819
88,552	-	88,552
1,357	8,972	10,329
892,800	-	892,800
25,080	9,569	34,649
<u>(7,423)</u>	<u>7,423</u>	<u>-</u>
<u>\$ 1,202,185</u>	<u>\$ 25,964</u>	<u>\$ 1,228,149</u>
\$ 910,686	\$ (4,648)	\$ 906,038
<u>637,039</u>	<u>1,179,166</u>	<u>1,816,205</u>
<u>\$ 1,547,725</u>	<u>\$1,174,518</u>	<u>\$ 2,722,243</u>
\$ 3,569	\$ -	\$ 3,569
322,034	-	322,034
<u>1,222,122</u>	<u>1,174,518</u>	<u>2,396,640</u>
<u>\$ 1,547,725</u>	<u>\$1,174,518</u>	<u>\$ 2,722,243</u>

CITY OF ROCKFORD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u>	<u>Special Road Use Tax</u>
RECEIPTS:		
Property tax	\$ 156,868	\$ -
Other city tax	3,473	-
Licenses and permits	1,168	-
Use of money and property	2,169	-
Intergovernmental	15,551	82,359
Charges for service	40,304	-
Miscellaneous	13,778	1,228
Total receipts	<u>\$ 233,311</u>	<u>\$ 83,587</u>
DISBURSEMENTS:		
Operating:		
Public safety	\$ 23,686	\$ -
Public works	45,524	135,618
Culture and recreation	63,563	-
Community and economic development	4,534	-
General government	96,188	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>\$ 233,495</u>	<u>\$ 135,618</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (184)</u>	<u>\$ (52,031)</u>
Other financing sources (uses):		
Bond proceeds	\$ -	\$ -
Bond discount	-	-
Operating transfers in	19,154	-
Operating transfers out	-	-
Total other financing sources (uses)	<u>\$ 19,154</u>	<u>\$ -</u>
Change in cash balances	\$ 18,970	\$ (52,031)
Cash balances beginning of year	<u>320,975</u>	<u>55,600</u>
Cash balances end of year	<u>\$ 339,945</u>	<u>\$ 3,569</u>
Cash Basis Fund Balances:		
Restricted for:		
Streets	\$ -	\$ 3,569
Other purposes	-	-
Committed for capital projects	-	-
Assigned for library	107,839	-
Unassigned	<u>232,106</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 339,945</u>	<u>\$ 3,569</u>

See Notes to Financial Statements.

Revenue	Capital Projects			
LOST- General	East Main Bridge Project	Water Main Project	Nonmajor	Total
\$ -	\$ -	\$ -	\$ 41,478	\$ 198,346
88,552	-	-	-	92,025
-	-	-	-	1,168
-	47	-	-	2,216
-	94,302	-	98,916	291,128
-	-	-	-	40,304
-	-	-	11,425	26,431
<u>\$ 88,552</u>	<u>\$ 94,349</u>	<u>\$ -</u>	<u>\$ 151,819</u>	<u>\$ 651,618</u>
\$ -	\$ -	\$ -	\$ -	\$ 23,686
-	-	-	-	181,142
2,378	-	-	12,407	78,348
-	-	-	-	4,534
-	-	-	18,998	115,186
-	250	-	-	250
-	170,328	2,809	50,026	223,163
<u>\$ 2,378</u>	<u>\$ 170,578</u>	<u>\$ 2,809</u>	<u>\$ 81,431</u>	<u>\$ 626,309</u>
<u>\$ 86,174</u>	<u>\$ (76,229)</u>	<u>\$ (2,809)</u>	<u>\$ 70,388</u>	<u>\$ 25,309</u>
\$ -	\$ 432,000	\$ 381,000	\$ 87,000	\$ 900,000
-	(7,200)	-	-	(7,200)
-	-	-	-	19,154
(3,740)	-	-	(22,837)	(26,577)
<u>\$ (3,740)</u>	<u>\$ 424,800</u>	<u>\$ 381,000</u>	<u>\$ 64,163</u>	<u>\$ 885,377</u>
\$ 82,434	\$ 348,571	\$ 378,191	\$ 134,551	\$ 910,686
204,247	73,247	-	(17,030)	637,039
<u>\$ 286,681</u>	<u>\$ 421,818</u>	<u>\$ 378,191</u>	<u>\$ 117,521</u>	<u>\$ 1,547,725</u>
\$ -	\$ -	\$ -	\$ -	\$ 3,569
286,681	-	-	35,353	322,034
-	421,818	378,191	87,000	887,009
-	-	-	-	107,839
-	-	-	(4,832)	227,274
<u>\$ 286,681</u>	<u>\$ 421,818</u>	<u>\$ 378,191</u>	<u>\$ 117,521</u>	<u>\$ 1,547,725</u>

CITY OF ROCKFORD, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer Rental</u>	<u>Electric</u>
Operating receipts:			
Charges for service	\$ 155,960	\$ 99,724	\$ 793,485
Miscellaneous	-	-	4,999
Total operating receipts	<u>\$ 155,960</u>	<u>\$ 99,724</u>	<u>\$ 798,484</u>
Operating disbursements:			
Business type activities	<u>173,482</u>	<u>111,587</u>	<u>782,438</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (17,522)	\$ (11,863)	\$ 16,046
Non-operating receipts:			
Interest on investments	<u>2,392</u>	<u>3,562</u>	<u>3,018</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (15,130)</u>	<u>\$ (8,301)</u>	<u>\$ 19,064</u>
Other financing sources (uses):			
Operating transfer in	\$ 7,253	\$ 7,253	\$ 18,501
Operating transfer out	<u>-</u>	<u>-</u>	<u>(25,584)</u>
Total other financing sources (uses)	<u>\$ 7,253</u>	<u>\$ 7,253</u>	<u>\$ (7,083)</u>
Change in cash balances	\$ (7,877)	\$ (1,048)	\$ 11,981
Cash balances beginning of year	<u>239,703</u>	<u>346,555</u>	<u>685,713</u>
Cash balances end of year	<u>\$ 231,826</u>	<u>\$ 345,507</u>	<u>\$ 697,694</u>
Cash Basis Fund Balances:			
Committed for customer deposits	\$ -	\$ -	\$ -
Unrestricted	<u>231,826</u>	<u>345,507</u>	<u>697,694</u>
Total cash basis fund balances	<u>\$ 231,826</u>	<u>\$ 345,507</u>	<u>\$ 697,694</u>

See Notes to Financial Statements.

<u>Nonmajor</u>	<u>Total</u>
\$ -	\$1,049,169
4,570	9,569
<u>\$ 4,570</u>	<u>\$1,058,738</u>
 12,274	 1,079,781
 <u>12,274</u>	 <u>1,079,781</u>
 \$ (7,704)	 \$ (21,043)
 -	 8,972
 <u>-</u>	 <u>8,972</u>
 \$ (7,704)	 \$ (12,071)
 <u>(7,704)</u>	 <u>(12,071)</u>
 \$ -	 \$ 33,007
-	(25,584)
<u>-</u>	<u>(25,584)</u>
 \$ -	 \$ 7,423
 <u>-</u>	 <u>7,423</u>
 \$ (7,704)	 \$ (4,648)
 (92,805)	 1,179,166
<u>(92,805)</u>	<u>1,179,166</u>
<u>\$ (100,509)</u>	<u>\$1,174,518</u>
 \$ 29,461	 \$ 29,461
(129,970)	1,145,057
<u>(129,970)</u>	<u>1,145,057</u>
<u>\$ (100,509)</u>	<u>\$1,174,518</u>

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies

The City of Rockford is a political subdivision of the State of Iowa located in Floyd County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Rockford has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the North Iowa Area Council of Governments, Floyd County Assessor's Conference Board, Floyd County Emergency Management Commission, Floyd County Landfill Commission and Floyd County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The LOST-General Fund is used to account for local option sales tax receipts and disbursements.

Capital Projects:

The East Main Bridge Project Fund is used to account for the bridge construction project.

The Water Main Project Fund is used to account for the water main system improvement.

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Rental Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utilities.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works and debt service functions.

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2014	\$ 40,000	\$ 18,354
2015	40,000	17,942
2016	40,000	17,683
2017	40,000	17,422
2018	45,000	16,923
2019-2023	225,000	75,568
2024-2028	245,000	55,190
2029-2032	225,000	19,950
Total	<u>\$ 900,000</u>	<u>\$239,032</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$250 of general obligation bond registrar fees were paid from the Capital Projects, East Main Bridge Project Fund during the year ended June 30, 2013.

The resolution providing for the issuance of the general obligation bonds includes the following provision:

- (a) At the option of the City, bonds due on the Bridge/Water System Bonds issue of May 28, 2013, are subject to redemption and prepayment for years maturing in 2024 to 2032, inclusive, prior to maturity on June 1, 2022, and on any interest payment date thereafter, at a price of par plus accrued interest to call date, by giving proper notice.

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(4) **Capital Leases**

The City leased two pieces of equipment on a capital lease basis. Leases were paid off during the year.

(5) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was \$23,681, equal to the required contribution for the year.

(6) **Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 6 active and 1 retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$721 for single coverage. For the year ended June 30, 2013, the City contributed \$58,908 and plan members eligible for benefits did not contribute to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$10,998
Comp time	13,969
Total	<u>\$24,967</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage during the past year.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Emergency	\$ 4,336
	LOST-General	3,740
	Enterprise:	
	Electric	11,078
		<u>\$ 19,154</u>
Enterprise:	Capital Projects:	
Electric	EOI State Grant	<u>\$ 18,501</u>
Water	Enterprise:	
	Electric	<u>\$ 7,253</u>
Sewer	Electric	<u>\$ 7,253</u>
Total		<u>\$ 52,161</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Deficit Balances

At June 30, 2013, the City had deficit balances as follows:

Special Revenue, Hazard Mitigation Fund	\$ 606
Capital Projects, Property Acquisition Fund	4,226
Enterprise, Storm Sewer Fund	6,684
Enterprise, Thermostat Fund	34,468
Enterprise, Rebate Program Fund	1,050
Enterprise, Office Project Fund	87,768

The deficit balances were due to deficit beginning balances and project costs incurred prior to availability of funds. Most of these accounts will be closed out by making the necessary transfers.

CITY OF ROCKFORD, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(11) Commitments

At June 30, 2013, the following construction commitments had been made:

<u>Project</u>	<u>Total Contract</u>	<u>Costs Incurred To Date</u>
Bridge Replacement	\$1,361,706	\$ 150,947
Water Main	355,705	-
Total	<u>\$1,717,411</u>	<u>\$ 150,947</u>

(12) Subsequent Events

On November 12, 2013, the City Council approved the purchase and financing of a New Holland Tractor in the amount of \$89,316.

Other Information

CITY OF ROCKFORD, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
RECEIPTS:		
Property tax	\$ 198,346	\$ -
Other city tax	92,025	-
Licenses and permits	1,168	-
Use of money and property	2,216	8,972
Intergovernmental	291,128	-
Charges for service	40,304	1,049,169
Miscellaneous	26,431	9,569
Total receipts	<u>\$ 651,618</u>	<u>\$1,067,710</u>
DISBURSEMENTS:		
Public safety	\$ 23,686	\$ -
Public works	181,142	-
Culture and recreation	78,348	-
Community and economic development	4,534	-
General government	115,186	-
Debt service	250	-
Capital projects	223,163	-
Business type activities	-	1,079,781
Total disbursements	<u>\$ 626,309</u>	<u>\$1,079,781</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 25,309	\$ (12,071)
Other financing sources, net	<u>885,377</u>	<u>7,423</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 910,686	\$ (4,648)
Balances beginning of year	<u>637,039</u>	<u>1,179,166</u>
Balances end of year	<u>\$ 1,547,725</u>	<u>\$1,174,518</u>

See Accompanying Independent Auditor's Report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 198,346	\$ 198,904	\$ 198,904	\$ (558)
92,025	63,871	63,871	28,154
1,168	1,685	1,685	(517)
11,188	11,027	11,027	161
291,128	99,199	99,199	191,929
1,089,473	1,205,694	1,205,694	(116,221)
36,000	14,270	14,270	21,730
<u>\$1,719,328</u>	<u>\$1,594,650</u>	<u>\$1,594,650</u>	<u>\$ 124,678</u>
\$ 23,686	\$ 24,619	\$ 24,619	\$ 933
181,142	115,840	180,840	(302)
78,348	94,063	94,063	15,715
4,534	4,550	4,550	16
115,186	131,062	131,062	15,876
250	-	-	(250)
223,163	-	825,000	601,837
1,079,781	1,152,638	1,152,638	72,857
<u>\$1,706,090</u>	<u>\$1,522,772</u>	<u>\$2,412,772</u>	<u>\$ 706,682</u>
\$ 13,238	\$ 71,878	\$ (818,122)	\$ 831,360
892,800	-	900,000	(7,200)
\$ 906,038	\$ 71,878	\$ 81,878	\$ 824,160
1,816,205	1,609,050	1,609,050	207,155
<u>\$2,722,243</u>	<u>\$1,680,928</u>	<u>\$1,690,928</u>	<u>\$1,031,315</u>

CITY OF ROCKFORD, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$890,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the public works and debt service functions.

Supplementary Information

CITY OF ROCKFORD, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue		
	Employee Benefits	Hazard Mitigation	Emergency
RECEIPTS:			
Property tax	\$ 36,930	\$ -	\$ 4,548
Intergovernmental	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>\$ 36,930</u>	<u>\$ -</u>	<u>\$ 4,548</u>
DISBURSEMENTS:			
Operating:			
Culture and recreation	\$ 12,407	\$ -	\$ -
General government	18,998	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 31,405</u>	<u>\$ -</u>	<u>\$ -</u>
Excess of receipts over disbursements	<u>\$ 5,525</u>	<u>\$ -</u>	<u>\$ 4,548</u>
Other financing sources (uses):			
Bond proceeds	\$ -	\$ -	\$ -
Operating transfers out	-	-	(4,336)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,336)</u>
Change in cash balances	\$ 5,525	\$ -	\$ 212
Cash balances beginning of year	<u>25,280</u>	<u>(606)</u>	<u>4,336</u>
Cash balances end of year	<u>\$ 30,805</u>	<u>\$ (606)</u>	<u>\$ 4,548</u>
Cash Basis Fund Balances:			
Restricted for other purposes	\$ 30,805	\$ -	\$ 4,548
Committed for city hall project	-	-	-
Unassigned	-	(606)	-
Total cash basis fund balances	<u>\$ 30,805</u>	<u>\$ (606)</u>	<u>\$ 4,548</u>

See Accompanying Independent Auditor's Report.

Capital Projects			
<u>EOI State Grant</u>	<u>City Hall Project</u>	<u>Property Acquisition</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 41,478
18,501	-	80,415	98,916
-	-	11,425	11,425
<u>\$ 18,501</u>	<u>\$ -</u>	<u>\$ 91,840</u>	<u>\$ 151,819</u>
\$ -	\$ -	\$ -	\$ 12,407
-	-	-	18,998
-	-	50,026	50,026
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,026</u>	<u>\$ 81,431</u>
<u>\$ 18,501</u>	<u>\$ -</u>	<u>\$ 41,814</u>	<u>\$ 70,388</u>
\$ -	\$ 87,000	\$ -	\$ 87,000
(18,501)	-	-	(22,837)
<u>\$ (18,501)</u>	<u>\$ 87,000</u>	<u>\$ -</u>	<u>\$ 64,163</u>
\$ -	\$ 87,000	\$ 41,814	\$ 134,551
-	-	(46,040)	(17,030)
<u>\$ -</u>	<u>\$ 87,000</u>	<u>\$ (4,226)</u>	<u>\$ 117,521</u>
\$ -	\$ -	\$ -	\$ 35,353
-	87,000	-	87,000
-	-	(4,226)	(4,832)
<u>\$ -</u>	<u>\$ 87,000</u>	<u>\$ (4,226)</u>	<u>\$ 117,521</u>

CITY OF ROCKFORD, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise			
	Water Meter Deposit	Storm Sewer	Utilities Collections	Light Meter Deposit
Operating receipts:				
Miscellaneous	\$ 1,174	\$ -	\$ -	\$ 3,396
Operating disbursements:				
Business type activities	850	-	3,826	6,848
Change in cash balances	\$ 324	\$ -	\$ (3,826)	\$ (3,452)
Cash balances beginning of year	6,170	(6,684)	3,826	26,419
Cash balances end of year	<u>\$ 6,494</u>	<u>\$ (6,684)</u>	<u>\$ -</u>	<u>\$ 22,967</u>
Cash Basis Fund Balances:				
Committed for customer deposits	\$ 6,494	\$ -	\$ -	\$ 22,967
Unrestricted	-	(6,684)	-	-
Total cash basis fund balances	<u>\$ 6,494</u>	<u>\$ (6,684)</u>	<u>\$ -</u>	<u>\$ 22,967</u>

See Accompanying Independent Auditor's Report.

<u>Thermostat</u>	<u>Rebate Program</u>	<u>Office Project</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 4,570
-	750	-	12,274
\$ -	\$ (750)	\$ -	\$ (7,704)
(34,468)	(300)	(87,768)	(92,805)
<u>\$ (34,468)</u>	<u>\$ (1,050)</u>	<u>\$ (87,768)</u>	<u>\$ (100,509)</u>
\$ -	\$ -	\$ -	\$ 29,461
(34,468)	(1,050)	(87,768)	(129,970)
<u>\$ (34,468)</u>	<u>\$ (1,050)</u>	<u>\$ (87,768)</u>	<u>\$ (100,509)</u>

CITY OF ROCKFORD, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Bridge/Water system	05/28/13	0.65-3.50%	\$ 900,000
Capital Leases:			
New Holland TN85	10/10/07	1.90	\$ 15,700
New Holland TC45	10/10/07	1.90	26,150
Total indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ -	\$900,000	\$ -	\$900,000	\$ -	\$ -
\$ 3,259	\$ -	\$ 3,259	\$ -	\$ 62	\$ -
5,429	-	5,429	-	103	-
<u>\$ 8,688</u>	<u>\$ -</u>	<u>\$ 8,688</u>	<u>\$ -</u>	<u>\$ 165</u>	<u>\$ -</u>
<u>\$ 8,688</u>	<u>\$900,000</u>	<u>\$ 8,688</u>	<u>\$900,000</u>	<u>\$ 165</u>	<u>\$ -</u>

CITY OF ROCKFORD, IOWA
BOND MATURITIES
JUNE 30, 2013

Year Ending June 30,	<u>GENERAL OBLIGATION BONDS</u>	
	<u>Bridge/Water System</u>	
	<u>Issued May 28, 2013</u>	
	<u>Interest Rates</u>	<u>Amount</u>
2014	0.65%	\$ 40,000
2015	0.65	40,000
2016	0.65	40,000
2017	1.25	40,000
2018	1.25	45,000
2019	1.25	45,000
2020	1.25	45,000
2021	1.70	45,000
2022	1.70	45,000
2023	1.70	45,000
2024	1.70	45,000
2025	2.15	50,000
2026	2.15	50,000
2027	2.15	50,000
2028	2.15	50,000
2029	3.50	55,000
2030	3.50	55,000
2031	3.50	55,000
2032	3.50	60,000
Total		<u>\$900,000</u>

See Accompanying Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Rockford, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated January 28, 2014. My report expressed qualified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles because I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Rockford's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Rockford's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Rockford's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Rockford's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Findings as item (C) to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rockford's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Rockford's Responses to Findings

The City of Rockford's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Rockford's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Rockford during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Charles City, Iowa
January 28, 2014

CITY OF ROCKFORD, IOWA
Schedule of Findings
Year Ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Countersignature of Checks - The City requires checks to be signed by two authorized individuals. I noted a check with only one authorized signature.

Recommendation - Checks should be prepared and signed by one individual and then the supporting documentation should be made available along with the check to a second independent individual for review and countersignature.

Response - We will follow procedures for two signatures on all checks.

Conclusion - Response accepted.

- (C) Post-dated checks - I noted that the City is post-dating checks.

Recommendation - The City should avoid the use of post-dating checks.

Response - We Will discontinue the use of post-dating checks in the future.

Conclusion - Response accepted.

- (D) Information Systems Controls - The City does not have a written disaster recovery plan. Also, adequate fire protection of computers and files does not exist.

Recommendation - The City should implement the controls necessary to protect the processing of computer information.

Response - We will do this.

Conclusion - Response accepted.

CITY OF ROCKFORD, IOWA
Schedule of Findings
Year Ended June 30, 2013

Findings Related to the Financial Statements: - continued

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013, exceeded the amount budgeted in the public works and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will do this in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - No business transactions between the City and City officials or employees were noted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- (6) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- (8) Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2013.

Recommendation - A new resolution should be approved in amounts sufficient to cover anticipated deposits for all depositories.

Response - We will review our current resolution and make changes as necessary.

Conclusion - Response accepted.

**CITY OF ROCKFORD, IOWA
Schedule of Findings
Year Ended June 30, 2013**

Other Findings Related to Required Statutory Reporting: - continued

- (9) Financial Condition - At June 30, 2013, the City had deficit balances as follows:

Special Revenue, Hazard Mitigation Fund	\$ 606
Capital Projects, Property Acquisition Fund	4,226
Enterprise, Storm Sewer Fund	6,684
Enterprise, Thermostat Fund	34,468
Enterprise, Rebate Program Fund	1,050
Enterprise, Office Project Fund	87,768

Recommendation - The City should monitor these accounts and investigate alternatives to eliminate these deficits in order to return them to a sound financial condition.

Response - These accounts will be monitored in the future.

Conclusion - Response accepted.

- (10) Sales Tax - Sales tax on sewer services provided to non-residential commercial operations was not uniformly assessed.

Recommendation - The City should uniformly assess sales tax on sewer services provided to non-residential commercial operations in accordance with section 701-26.72 of the Iowa Department of Revenue Administrative Rules and Regulations.

Response - This will be corrected.

Conclusion - Response accepted.

- (11) Travel Allowance - I noted one employee who receives a flat monthly travel allowance under a non-accountable plan and I also noted it is not treated as compensation.

Recommendation - The City should treat non-accountable plans as compensation.

Response - We will look into this.

Conclusion - Response accepted.